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SUBJECT: ISRAELI ARABS: PARTNER OR POWDER-KEG?

Classified By: Economic Counselor David R. Burnett; reasons 1.4 b/d

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Summary
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¶1. (C) The Israeli Arab community plays a role in domestic stability and Israeli engagement with the Palestinians and Arab world. However, as it continues to lag behind the majority Jewish population in most social, political, and economic indicators, leaders of the community sense a growing disillusionment with the Government of Israel (GOI) at levels not seen since the 2000 Intifada. GOI officials, NGOs, and Arab community leaders fear that Israeli Arabs will become a flashpoint for future conflict, instead of serving as a bridge for possible relationship-building, if grievances are not addressed. They note the following worrying trends:

--a growing potential for violence, not seen since the second Intifada;
--a decline in support for the peace process among government and community leaders;
--a general sense of disillusionment, leading to the loss of an economic and social bridge between Israel, the Palestinian Territories, and the Arab world;
--increasing tension between Jews and Arabs in mixed areas, many of which may serve as areas for relocation of West Bank settlers under a peace deal. End Summary.

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Growing disillusionment...
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¶2. (U) Jafar Farah, the director of the Israeli Arab NGO Mossawa, told EmbOffs that for the first time since the second Intifada, he has felt an increasing potential for violence among the Israeli Arab community. According to Farah, "though all of Israel will lose if there is violence, the Arab community will lose the most." Even so, he sees a "readying in the margins" for violence. For instance, for the first time since the second Intifada, two protesters came to the October 1st Arab general strike with guns and wearing keffiyehs. Though the gunmen were turned away (and "beat-up") by local Arab leaders, Farah sees this case as indicative of a trend in the Arab community. He and other community leaders fear that this incident portends significant danger, especially when combined with national Israeli political powers and police forces who, according to these individuals, are also seeking escalation.

¶3. (U) There is also a general disillusionment with the legal system. As Hassan Jabareen, the General Director of Adalah, the Legal Center for Arab Minority Rights in Israel pointed out, "the Knesset is not a field which gives us (Israeli Arabs) a place to push for our rights. The courts are weak as well." Jabareen noted that as the Israeli Arab population becomes less hopeful of achieving justice through the legal system, separation grows between the Arab community and the Jewish majority in Israel. This leads to what he termed a "cultural ghetto" and ultimately "solutions outside of the law -- i.e. violence." He also pointed out that the GOI is

increasingly refusing to implement court rulings it dislikes, thus increasing frustration with the system. Jabareen said that the Israeli right-wing is looking to erase the political Green Line with its settlement building and political platforms. According to Jabareen, as this happens, Israeli Arabs will also look to do the same, drawing support from Palestinians and others in the region, as they are forced to rely less and less on the increasingly marginalized political left in Israel.

14. (U) Farah and other members of Mossawa believe that the U.S. should be paying more attention to Israeli Arab voting dynamics as the peace process continues. Since 2000, there has been a general decline in the number of Israeli Arabs who vote in parliamentary elections -- the number was around 55 percent in the last two elections, down from a high of 80 percent a decade ago. As a result of this decline in voting, the number of Israeli Arab members of Knesset has fallen. According to Farah, Israeli Arab Knesset members have generally voted for peace process-related initiatives, even when they voiced dissent beforehand. He claimed that other parties who will replace Israeli Arabs in the Knesset will not be as supportive of the peace process. Farah believes that every former Israeli Arab Knesset seat lost to a right-wing Israeli party due to the lack of Arab voting, is a lost vote for any peace process.

15. (C) In Umm-al-Fahm, Israel's second largest Arab town after Nazareth, peace process rejectionist Sheikh Raed Salah enjoys about 65 percent of the population's support for his Northern Branch of the Islamic Movement, and the mayor is an active member. It is a town of 45,000 people where 80 percent

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of its workers work outside the town due to the lack of commercial activity or development. One-third of the population lives in poverty. Deputy Mayor Mustafa Ahmad Galion recalled painful memories from the two worlds he grew up in, attending modern Jewish schools outside the village and doing homework by kerosene lamps at home. Umm-al-Fahm was under military governance until 1966, only got electricity in 1973, and continues to be regarded by many Israeli Jews as enemy territory with a history of violent disturbances. Foreign Minister Lieberman has suggested including it in a future Palestinian state by redrawing the West Bank's boundary northward. The Deputy Mayor estimated over 90 percent of the population would oppose such a move as it would reduce incomes by fifteen times and separate them from other Arabs in the Galilee. He also mentioned a minority opinion among Israeli Arabs that considers all of Israel to be a future Palestinian state--and hence, sees no need to redraw boundaries. Though there were improvements under PM Rabin in 1992-1995, the situation has grown worse according to Galion, with "today's government" being "the worst." Such Israeli Arab alienation is becoming a source of instability within Israel.

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...Due to the relatively dire economic status
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16. (U) Much of the dissatisfaction among Israeli Arabs stems from their relatively dire economic situation. Almost all indicators point to a distinct gap between the economic standing of Arabs (and other minorities) and the Jewish majority. 50 percent of Arab families fall under the poverty line, compared to 15 percent of Israeli Jewish families. While Israeli Arabs represent twenty percent of Israel's population, they only account for eight percent of the nation's GDP. The average gross income of Arab households (NIS 7,590) is equivalent to only 57 percent of that in Jewish households, and their GDP per capita of \$8000 is less than 50 percent of the average (\$19,000) in the overall Israeli economy. Unemployment among the Arab population falls around 11 percent, compared to seven percent among Jews. Even more stark is unemployment among Arab college

graduates -- 26 percent -- compared to eight percent for Jewish graduates. The disparity is even larger among women: the rate of participation in the labor force by women in the Arab community is approximately 22 percent (of working age), compared with 76 percent among Jewish women. Female Arab college graduates, face a 43 percent unemployment rate as compared to 15 percent among Jewish women.

17. (U) Many Arab community leaders are critical of related GOI economic policy. Overall, less than five percent of the state budget is allocated to the Arab community. Even though seven percent of Israeli NGOs address Israeli Arab issues, only 1.5 percent of the funds that GOI allocates to NGOs goes to such NGOs. However, many of these allocation levels are based on the low tax collection statistics from the Arab sector. According to a recent study by Rafik Haj, a professor at Ben Gurion University, the current municipal tax collection rate within the Arab population stands at 18.6 percent as opposed to 53.7 percent in the Jewish sector. The number of tax evaders within the Arab population is 60 percent. This lack of revenue from tax collection is a rationale for the lower disbursement amounts by the GOI -- creating a cyclical process. Haj's study found that the low level of collection is directly related to the poor socio-economic status of the Arab population. In Arab communities with better economic conditions, the tax payment levels were comparable to the Jewish population. In a cursory inquiry with various regional municipality officials, Econoff found this claim to hold true. Because of the disparity in income levels between the two populations, the study found that overall, property tax amounts to 6.9 percent of an average Arab family's income as opposed to 4.6 percent of an average Jewish family's.

18. (U) Without allocation of budgets to the Arab sector, the much needed process of infrastructure development has been a slow one. For instance, in the Negev Bedouin community, less than five percent of the population receives government services, though 90 percent is below the poverty level. Due to land disputes, over 50 percent of the Negev Bedouin population is living in unrecognized villages. According to the mayor of Lakiye, a recognized community of 10,000, this problem is compounded because the Ministry of Interior forces Lakiye to provide services to the surrounding unrecognized and recognized satellite villages. Together, these satellite villages amount to an additional 5,000 people. Lakiye receives no extra funds from the national government to provide these services, which has contributed to its growing debt. Recently, the National Water Authority shut off water services to Lakiye and the surrounding areas because of past

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due bills. However, the National Water Authority claims that the municipality is over-charging its population for the water, which the municipality refutes.

19. (U) Ali Haider and Ron Gerlitz, co-executive directors of the NGO Sikkuy, noted that land use restrictions are also a large driver of poverty in the Arab community. They described the difficulties the Arab communities face in obtaining permits to build for both residential and commercial purposes. The GOI does not grant permits for expanding Arab municipalities, such as Umm-al-Fahm, creating a situation where it is nearly impossible to build or find legal housing for the burgeoning population. These land use restrictions also prevent the opening of local industrial parks or commercial areas. Because of this, many in the Arab community have to commute to the center of the country to find work. This leads to decreased tax revenues for the towns, as well as larger social problems for families and the community. The lack of infrastructure, combined with the distance many Arabs must travel to work also causes further female unemployment. The NGO ACRI (Association for Civil Rights in Israel) cited a lack of transportation to job sites and lack of childcare as two contributing factors to Arab

female unemployment.

GOI begins to address the issue

¶10. (SBU) The GOI is beginning to address this situation. As Avishay Braverman, Minister for Minorities, commented, "Israel cannot achieve sustainable growth without equality between the Jewish and minority populations." He believes that the GOI must start investing in the human capital of the Arab sector, particularly in education and infrastructure to achieve long-term national growth. Aiman Saif, Head of the Authority for Development of the Arab Sector in the Prime Minister's Office, also discussed the importance of the Israeli Arab community as an economic bridge between Israel, the Palestinian Territories, and the Arab world. He cited a recent survey conducted by the Authority of 150 Jewish business owners, in which 73 percent of respondents said that their Israeli Arab counterparts can serve as partners in reaching out to the Arab world. The majority of respondents also said that without such a partner, they would be unwilling to engage with the Palestinian Territories or Israel's Arab neighbors.

¶11. (U) Through Saif's Authority, the GOI is focusing efforts on: 1) Governmental recognition of the socio-economic gaps between the Arab and Jewish populations; 2) Acknowledgment of the Arab population as an integral part of national plans (including programs for at-risk children and teens, strengthening the North, building classrooms and infrastructure, etc.); 3) the push to include all Arab villages in National Priority Area A; and, 4) the creation of governmental tools to decrease the risk taken by investors in the Arab sector (including programs for employment, subsidized professional training, and investment in research and development). One of the government's self-proclaimed successes has been increasing the number of Arabs filling jobs in national civil service from two percent to 6.5 percent of the total national service in the past decade.

Other initiatives include:

--The establishment of a NIS 160 million joint investment fund with the private sector for investment in minority sector businesses in Israel. The GOI is committed to investing NIS 80 million in the fund, and a private entity chosen via tender, by the end of the year, will be required to raise the additional NIS 80 million.

--Efforts to increase small business loans to the minority sector, including a plan with the regional directors of Mercantile and Discount (the Israeli banks which do the most business in the northern Arab community) to discuss GOI loan guarantee programs as well as other training for local managers. (Note: One particular problem is that banks which serve the minority community are not fully aware of the funds set up by the GOI for small and medium sized businesses and have not been utilizing them. Together these funds have provided over one billion NIS between 2003-2008. However, only roughly ten percent (NIS 95 million) has gone to the Arab sector. The GOI is not sure whether this is a result of denied loan applications or lack of applications/participation from the Arab community. End Note.)

--A tender for a consulting company to provide minority

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municipalities with operational and infrastructure advice. 24 companies have bid on the tender which will encompass nine towns across Israel. After doing an analysis of the municipalities' operations and infrastructure, the consulting

company will work with the municipality to select one or two major projects that have the potential to bring significant economic change to the town or region. The selected plan will, in turn, be funded by the GOI.

--A small subsidy system for Arab college graduates, which will provide businesses in Israel, especially those in the high tech sector, added incentives for hiring Israeli Arabs. In the pilot version, the GOI will provide vouchers for NIS 10,000 to 500 Israeli Arab college graduates. When hired, the GOI will pay the voucher sum to the hiring company.

¶12. (C) Comment: Embassy views the current GOI approach to the Israeli Arab issue with cautious optimism. However, the GOI has a history of not delivering on promises over successive governments, both Labor and Likud. Though Braverman and Saif are sending the right messages, it is unclear how much authority they wield over the government as a whole or if their economic plans can remedy the significant problems facing the Arab community.

CUNNINGHAM